

# SECURITY

- A tradeable financial asset that has monetary value
- STOCK – signifies ownership in a company; measured in SHARES which can be traded in a public market

# ISSUER

- A company that has issued securities
- If a “public company” then those securities (stock) can be traded by shareholders in a public market

# REPORTING COMPANY

- Public company is a “reporting company” if issuing securities in registered SEC offering or registering a class of securities because securities are traded on exchange or have more than \$10 million in assets
- Reporting companies file periodic reports with the SEC



# U.S. SECURITIES & EXCHANGE COMMISSION ("SEC")

- Federal agency that has authority to enforce securities laws
- Regulates companies that issue, sell, and trade stocks

# ISSUER / NON-REPORTING COMPANY

- Company that is not required to file periodic reports with the SEC
- Generally “penny stocks” - smaller companies with low share price ( $< \$5$ ), lack of liquidity (fewer shareholders), less publicly available information and trading in OTC Market



# SHELL COMPANY

- A corporation without active business operations or significant assets
- May be a public company
- Reverse Merger

# PUBLIC MARKETS

**Exchanges:** Centralized marketplace (electronic) where stock is traded

- New York Stock Exchange and NASDAQ
  - Listing Requirements
  - SEC filings- disclosure obligations

**Over the Counter (OTC):** Electronic quotation system that shows only stock quotes, volume, and last sale price

- 3 Tier of OTC Stocks
  - OTCQX (most stringent)
  - OTCQB
  - OTC Pink (no reporting or minimum daily trading volume requirements)

# BROKERAGE FIRM

- A FINRA registered financial firm that purchases and sells securities for its own accounts and for its clients.
- Employs stockbrokers who must also be FINRA licensed and registered

# TRADE EXECUTION

Seller

Seller's Broker



Buyer's Broker

Buyer

Market Maker  
buys stock from  
seller's broker  
and sells to  
buyer's broker



Seller receives payment



Buyer receives stock

## STOCK PRICE

- A price at which a security is bought or sold
- “opening price” – first trade after market opens at 9:30am
- “closing price” – last trade before market closes at 4pm

# SHARE VOLUME

- # of shares purchased or sold among market participants for specific stock in particular time frame
- May impact the stock price

# FREE TRADING SHARES

- Shares that can be purchased or sold in the public market

# RESTRICTED SHARES

- Stock (shares) acquired in an unregistered private sale from the issuing company or an affiliate of the issuer
- Stock certificate will be stamped “restricted”
- Resale generally governed by Rule 144 “safe harbor” exemption

# CONTROL SECURITIES

- Stock held by an affiliate of the issuer
- Control is not about titles
- Resale is governed by Rule 144

# AFFILIATE

- Directly or indirectly (through others) in a relationship of control with the company
- Examples include officer, director, large shareholder
- “Control” – power to direct management of company
- “Control” determined by totality of circumstances

# SEC RULE 144

- Securities Act requires all offer and sale of securities to be registered with the SEC unless there is an exemption
- Rule 144 is an exemption from securities registration allowing (under certain conditions) the sale into the public market of restricted or control shares
- Conditions include: length of time holding shares, manner of resale, and amount sold

# SEC RULE 144 REQUIREMENTS

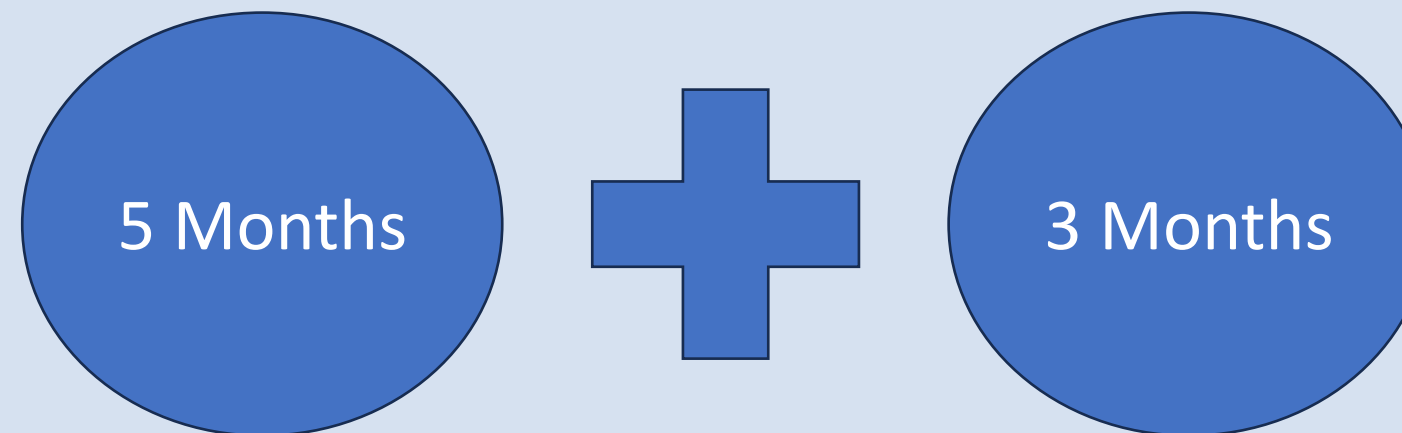
- Holding Period:
  - Reporting Co. cannot sell stock for 6 months
  - Non-Reporting Co. cannot sell stock for 1 year
- Current Public Info
- Trading Volume (affiliate only - control)
- Brokerage Transaction (affiliate only - control)
- File Notice with SEC (affiliate only – control)

# OPINION LETTER

- A legal opinion by lawyer for stockholder as to the resale of restricted securities under Rule 144 exemptions
- Required by transfer agent/brokerage firm to remove restrictive legend on certain securities
- Allows shares to become freely-traded

# TACKING PERIOD

- Permits holder of restricted securities to combine separate holding periods of prior owners to satisfy the requirement under Rule 144
- Includes prior holdings of different securities that continue the same investment (conversion)
- Does **not** apply if purchasing restricted securities from an **affiliate**



# OUTSTANDING SHARES

- All shares currently owned by investors including restricted shares held by company officers and insiders

# STOCK SPLITS

(no change in value)

- Forward: increase the # of shares, decrease the share price
- Reverse: decrease the # of shares, increase the share price

# TRANSFER AGENT

- Entity that performs administrative tasks for issuers
- Maintains a record of securities ownership
- Acts at the company's direction regarding issuance and cancellation of shares, lifting restrictive legends and communication between company and shareholders

# STOCK CERTIFICATE



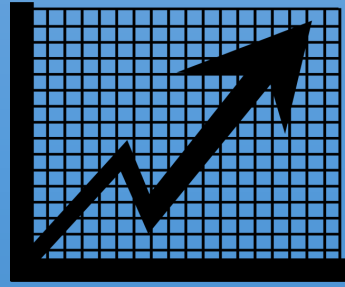
- Physical representation of ownership in a company
- Issued by a transfer agent
- “Medallion signature” – guarantees a signature authorizing securities transfer is authentic

# DEPOSITORY TRUST COMPANY (DTC)

- Provide centralized clearance and settlement services
- Facilitates movement of securities between financial institutions
- Maintains electronic custody of securities

# NOMINEES

- Entities holding assets (securities) on behalf of another entity or individual
- Often used to conceal the identity of true entity or individual in control of the assets (securities)



# PUMP AND DUMP SCHEME



- Form of market manipulation
- Using false and misleading information and/or coordinated trading to artificially support stock price
- Selling by insiders at inflated prices before ceasing promotional efforts and/or coordinated trading resulting in stock price decline
- Often found with smaller “penny stock” companies because of limited available information, low share price and lack of liquidity

# PUMP & DUMP SCHEME: 3 STEPS

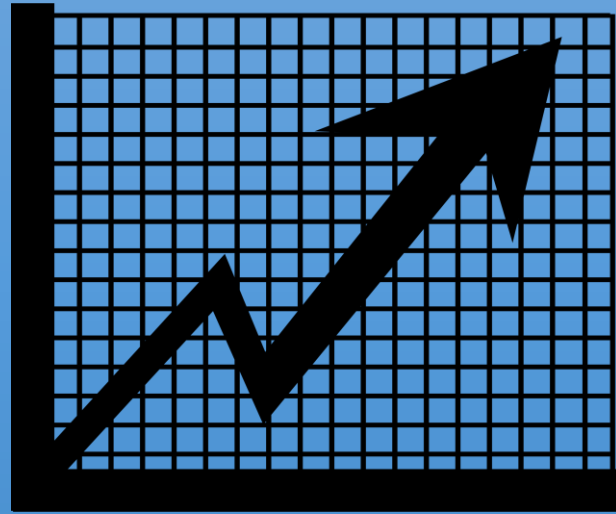
- #1 – Obtain Control
- #2 – Pump the stock price
- #3 – Dump the stock

# # 1 – OBTAIN CONTROL

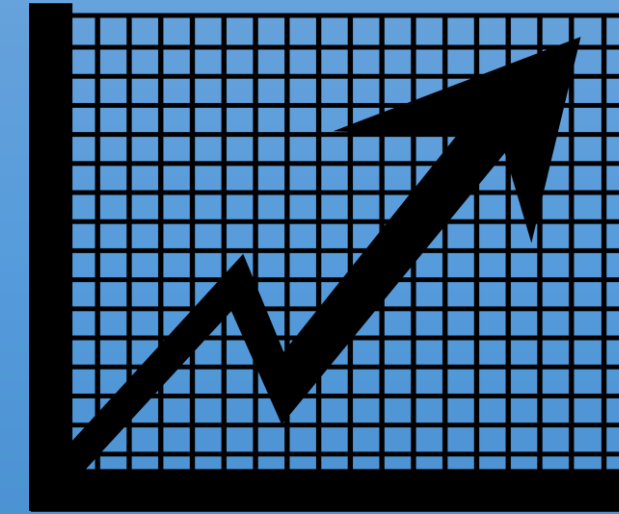
- Over free trading shares and management of company
- Often through fraudulent stock issuances / stock purchase agreements (e.g. convertible promissory note)
- Often concealed from public (use of nominees)

# CONVERTIBLE PROMISSORY NOTE

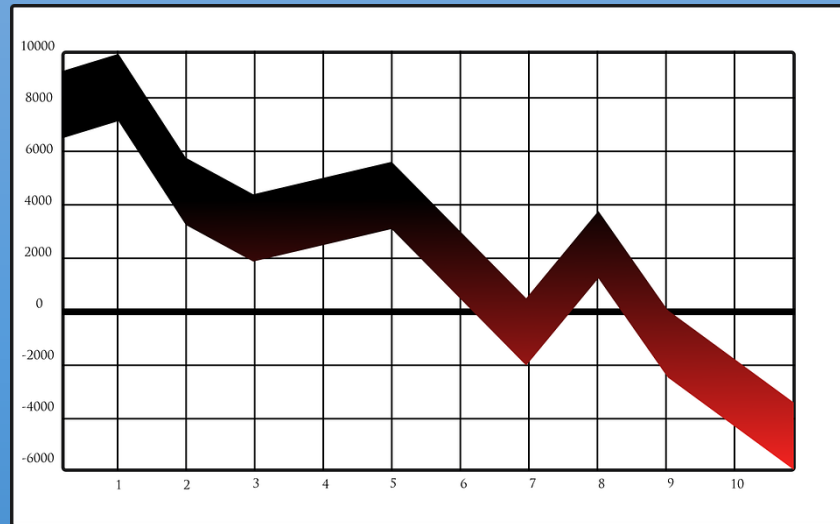
- Form of debt issued by the company where company borrows \$\$ from the investor and the loan amount can be converted into a pre-determined # of restricted shares for the investor
- Aged debt



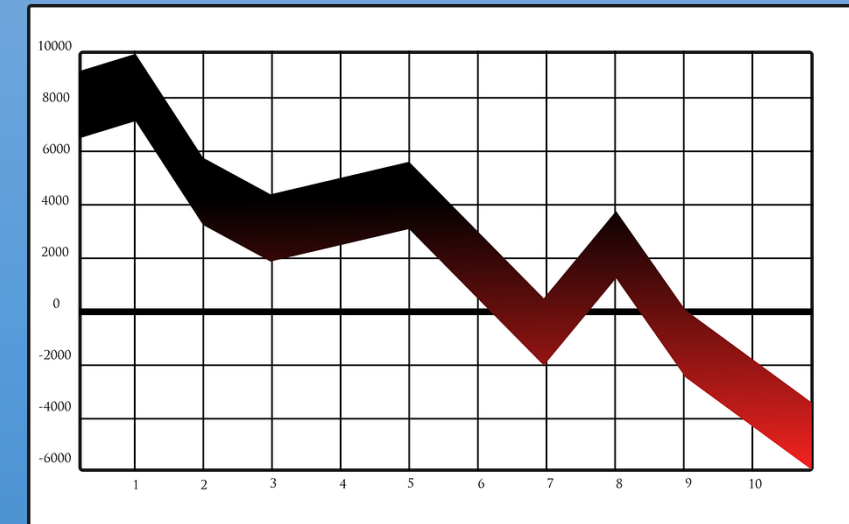
## # 2 - PUMP



- Artificially inflate price / volume of company stock
- Coordinated and deceptive trading
- Promotional campaign: misrepresentations, hype, false statements regarding company



## # 3 DUMP



- Decline of stock price and subsequent loss to investors due to:
- Selling by company insiders at inflated prices leading to greater supply than demand for stock
- Withdrawal of promotional campaign and/or efforts to continue coordinated trading and identifying new investors

# NanoTech Gaming, Inc. (“NTGL”)

## Acquiring Free-Trading Shares Under Rule 144

